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RHEHNSC/NSC WASHDC

RUCPDOC/DEPT OF COMMERCE WASHDC

RHEBAAA/DEPT OF ENERGY WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

RULSDMK/DEPT OF TRANSPORTATION WASHDC

RHMCSUU/FAA NATIONAL HQ WASHINGTON DC

RUEHRC/DEPT OF AGRICULTURE WASHDC

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DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR

DEPT PASS TO USTR MDELANEY/CLILIENFELD/AADLER

DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT

TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN

USDA PASS FAS/OCRA/RADLER/BEAN/FERUS

EEB/CIP FSAEED, DUNNE, AGIBBS

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IN

SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of August 24-28, 2009

REFTEL:

¶11. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of August 24-28, 2009, including the following:

-- India Announces Foreign Trade Policy for 2009-2014
-- ICRIER Seminar On Express Delivery Issues
-- Washington Apples Bring Bonanza to Indian Importers
-- CAT India Prepares for an Increase in Orders; Plans for Expansion
-- Myanmar and Bangladesh Dispute India's Claim to Continental Shelf in the Bay of Bengal
-- A Tale of Two Inflations

India Announces Foreign Trade Policy for 2009-2014

¶12. (U) On August 27, Minister of Commerce and Industry Anand Sharma announced India's Foreign Trade Policy (FTP) for 2009- 2014. Against a backdrop of falling exports since October 2008, the Government of India's (GOI) FTP aims to address the slowdown by providing support to exporters. Highlights of the policy include extension of fiscal concessions and additional subsidies for exporters, specific benefits for labor-intensive industries that are currently suffering due to the global economic recession, increased support for marketing schemes, and procedural changes to cut transaction costs and time. Minister Sharma also called for diversification in exported products and markets to improve export competitiveness. Text of the FTP is available at GOI's website: <http://dgft.delhi.nic.in>.

¶13. (U) Comment: Domestic industry, exporters and trade analysts view the announcement as a positive step taken by the GOI to support the export sector, which although relatively small (only about 21 percent of GDP in 2008), has been hard hit by the economic downturn. Nonetheless, the continuing global economic recession and India's own infrastructural challenges will continue to be an obstacle to

growth in Indian exports. End Comment.

ICRIER Seminar On Express Delivery Issues

¶4. (U) The Indian Council for Research on International Economic Relations (ICRIER) hosted a seminar on August 26 entitled "Facilitating Trade and Global Competitiveness: Express Delivery Sector in India." The seminar raised challenges within the express delivery services (EDS) industry and the potential impact that an improved express delivery sector would have for India's trade and economic growth. Noteably, Minister of Commerce and Industry Anand Sharma was present for the opening session. Dr. Rajiv Kumar, Director of ICRIER, opened the seminar noting that with the economic slowdown, now is an optimal time to examine the structure and policy related to EDS. Ilse Wilczek, Chairperson of the Global Express Association and Director of Dutch-based express delivery company TNT, highlighted the role that express delivery plays as a facilitator of industry and trade, enabling manufacturers and traders to competitively engage in international trade and deal with "the demanding time frames of the global economy." Wilczek described how unclear postal regulations, complex licensing requirements, inefficient customs procedures, limited ground handling systems and restrictions on both foreign investment and access to aviation markets impede EDS, and steps to remove such restrictions would increase trade, investment and productivity.

¶5. (U) R.K. Saboo, Chairman of the Express Industry Council of India, presented specifically on the challenges to the development of EDS in India, including regulatory issues, the need for an amendment to the Indian Post Office Act to be passed,

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customs-related barriers (currently, express delivery companies are prohibited from making international commercial shipments) and infrastructure concerns, specifically airport and road infrastructure. Saboo presented slides showing express delivery companies operating in open areas at airports, limiting the effectiveness of the companies and leading to frequent damage and loss of shipments during poor weather conditions. Saboo requested that the Minister consider his recommendation to provide a "dedicated common user facility at all major airports for domestic movements." Saboo also recommended that a policy be put into place to solve the problem of state border check posts, which cause significant traffic "bottlenecks," slowing the pace of delivery. Saboo jokingly referenced recent free trade agreements signed by the Government of India, and recommended that a similar agreement be drawn up between all the states of India. He described a model on-line border clearance process in Uttar Pradesh (UP) which allows shipments to be cleared entirely in advance of border crossings, to avoid the need to halt vehicles at checkpoints. He suggested to the Minister that this system be adopted countrywide. For more information about the event, including presentation summaries, see ICRIER's website: <http://www.icrier.org/Seminar/2009/26aug09.html>

¶6. (SBU) UPS Asia-Pacific VP for Public Affairs Steve Okun privately discussed with Embassy officers plans for a joint industry, U.S. and EU symposium in India to spur progress on express delivery similar to events that have been carried out on a bilateral basis in Japan and China. He also planned to follow up with USTR about a possible agenda item on express delivery services for the upcoming Trade Policy Forum.

Washington Apples Bring Bonanza to Indian Importers

¶7. (U) A poor apple harvest in the lower valley of Himachal Pradesh (HP) in the Himalayan foothills, combined with a Hindu holiday that traditionally features apples as part of an offering, has brought a windfall for South Indian importers of Washington apples. A Delhi-based representative of the Washington Apple Commission told Consulate General Chennai that a poor apple crop in HP's lower valley region (near Shimla) meant there was little domestic production to meet the large South Indian demand. He added that consumption of apples, particularly in western and South India,

typically increases around the time of the Vinayaka Chathruthi holiday. (Note: the 10-day festival is also known as Ganesha Chathruthi, when Hindus celebrate the birthday of Lord Ganesha, and generally takes place in August and/or September. Apples are a traditional part of the offerings from the faithful. End Note.) Usually, Indian apples from HP harvested in July reach South India markets during the second week of August, just in time for the festival. The poor HP crop, however, did not allow supply to match demand, resulting in steep price increases - and an opportunity for U.S. exporters and Indian importers.

¶8. (SBU) The President of Chennai's Fruit Merchants Association told Consulate General Chennai that three importers made excellent profits when their containers cleared customs in Chennai the second week of August, facing virtually no competition from domestic apples. He said that the wholesale price of Washington apples in Chennai increased from USD 33 per crate in the last week of July to USD 45 per crate in the second week of August. The importers, he said, had paid approximately USD 28 per crate in July for their supply. He cautioned that the importers' "bonanza" would not be particularly long-lasting, noting that arrivals from HP's upper valley region would soon force a drop in apple prices.

CAT India Hard-hit by Economic Downturn and Power Shortages, But Still Plans for Expansion

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¶9. (U) U.S.-based Caterpillar, Inc (CAT) has been doing business in India since the 1930s. After enjoying a successful licensing relationship with Hindustan Motors (HM) since 1984, Caterpillar India Private Ltd became a wholly owned subsidiary with the acquisition of HM's share of the venture in 2001. Caterpillar India produces 60-ton and 100-ton trucks for the domestic market and for export to Southeast Asia, Russia and Mongolia; front-end loaders and backhoes for the Indian market; and large-scale generators used mainly by office parks, hotels and shopping malls in India.

¶10. (SBU) During a recent visit to the company's facility on the outskirts of Chennai (Thiruvallur), Caterpillar India Operations Manager M. Premkumar told Consulate General Chennai that all aspects of the company's business have dropped sharply since 2008. Orders for most products were down by more than half, with backhoe orders in particular falling from 794 in 2008 to 267 in 2009. Premkumar stressed, however, that numbers for the second half of 2009 are improving, and 2010 should surpass 2008. He said total machine shipments from the Thiruvallur plant in 2010 are expected to reach 3140, up from 2168 in 2008 and 1289 in 2009. CAT Chairman and CEO James Owens announced in 2008 a new USD 200 million investment in India, with USD 125 million going to the Thiruvallur facility. (CAT also has facilities in Bangalore, Chennai, and Hosur, directly employing some 2800 people in India, 1100 of them in Thiruvallur.) Caterpillar India plans to use this investment to expand the Thiruvallur facility into adjacent properties it already owns.

¶11. (SBU) While orders for its products are increasing, CAT still faces obstacles in India, particularly in assuring a reliable supply of electricity for its facilities. Premkumar told us that CAT has signed an agreement with the Tamil Nadu government that should secure a more reliable supply. Currently, the Thiruvallur plant can rely on only four hours of electricity supply per day from the grid. Premkumar complained that new investors in Tamil Nadu receive the most attention from the state government in terms of infrastructure and utilities, leaving more established corporate citizens neglected, even those seeking to increase their investments. The recently signed MOU, he said, may be a signal that the state government recognizes the need to counter this trend.

Myanmar and Bangladesh Dispute India's Claim To Continental Shelf in the Bay of Bengal

¶12. (U) Local media reports that a recent claim made by India for 300,000 square kilometers of seabed in the Bay of Bengal is being

disputed by both the Government of Myanmar and the Government of Bangladesh. While the section of continental shelf is unlikely to be rich in oil, it could potentially be a significant source of gas hydrates. The Government of Myanmar issued a letter to the United Nations (UN) on August 4, 2009, complaining that India had unilaterally extended the maritime boundary between the two countries in violation of a 1986 bilateral agreement. On June 18, Bangladesh Prime Minister Sheikh Hasina noted that her government planned to contest both India's and Myanmar's claims to the area of continental shelf. According to media reports, India's Ministry of External Affairs will likely hold bilateral discussions with Myanmar and Bangladesh rather than take up the issue at the UN.

A Tale of Two Inflations

¶13. (U) India has no single broad-based consumer price index (CPI) for measuring retail inflation, but rather uses three CPI indices focusing on different segments of the population - agricultural workers, rural workers, and industrial workers. Recently released statistics show stubbornly high inflation for all three CPIs due to

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increased food prices, which has a significant weight (varying between 46 and 69 percent) in each CPI basket. While the CPI for agricultural and rural laborers averaged 11 percent for the past twelve months, it rose to 12.9 percent and 12.7 percent respectively in July. The CPI for industrial workers averaged 9.2 percent in the past year and stood at 9.3 percent in July. In contrast, inflation as measured by the wholesale price index (WPI) ended in July at -1.53 percent, down from its peak of 12.9 percent from August, 2008. The WPI has a smaller weight in food than the three CPIs, but a higher weight in fuel and power, accounting for the difference in the rates. Analysts expect the WPI inflation to reach seven percent by March 2010.

¶14. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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